

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 DODE-00 FEAE-00 FPC-01 H-01 INR-07 INT-05

L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-01 OPIC-03 /084 W

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R 271640Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6866

INFO USDOC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 16799

E.O. 11652: GDS

TAGS: ETRD, UK

SUBJECT: HMG NORTH SEA PROCUREMENT POLICIES

REF: LONDON 16608

SUMMARY: AT DECEMBER 20 MEETING WITH OFFSHORE OPERATORS, SECSTATE FOR ENERGY VARLEY SAID GOVERNMENT CONSIDERING ADDING TO BILL NOW BEFORE PARLIAMENT REQUIREMENT THAT LICENSEES PROVIDE UK INDUSTRY WITH "FULL AND FAIR OPPORTUNITY" TO COMPETE FOR CONTRACTS. REACTION OF COMPANIES, BOTH AMERICAN AND BRITISH, WAS NEGATIVE. DEPT. ENERGY OFFICIAL SAYS GOVT. UNDER PRESSURE FROM SOME (UNSPECIFIED) INDUSTRIES AND MP'S. HE EMPHASIZED PROPOSAL IS NOT TO CHANGE UK POLICY BUT ONLY TO MAKE IT MORE EXPLICIT IN ORDER TO RELIEVE SOME OF THIS PRESSURE. VARLEY IS NOW CONSIDERING FURTHER ACTION, IF ANY, IN LIGHT OF OFFSHORE OPERATORS' COMMENTS. END SUMMARY

1. AT DECEMBER 20 MEETING (REFTEL) TO DISCUSS VARIOUS LICENSEE CHANGES WITH REPRESENTATIVES OF UK OFFSHORE OPERATORS ASSOCIATION (UKOOA), SECSTATE FOR ENERGY ERIC
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VARLEY MENTIONED POSSIBILITY OF AMENDING BILL ON

NON-FISCAL MEASURES (FIRST READING OF WHICH HAS ALREADY TAKEN PLACE IN PARLIAMENT) TO INCLUDE REQUIREMENT THAT OIL COMPANY LICENSEES PROVIDE UK INDUSTRY WITH "FULL AND FAIR OPPORTUNITY" TO COMPETE FOR OFFSHORE BUSINESS. ACCORDING TO INDUSTRY SOURCES, VARLEY SAID HE WAS BEING SUBJECTED TO VARIOUS PRESSURES TO INCLUDE SUCH A LEGISLATIVE PROVISION, HAD NOT MADE UP HIS MIND ABOUT IT AS YET, AND WANTED TO SOLICIT OIL COMPANY OPINIONS. REACTION OF UKOOA REPS (SHELL, BP, BURMAH, CONOCO, OCCIDENTAL, SUN AND HAMILTON BROTHERS) WAS UNIVERSALLY NEGATIVE.

2. DEPARTMENT OF ENERGY SOURCE HAS CONFIRMED THAT POSSIBLE LEGISLATIVE PROVISION ON "FULL AND FAIR OPPORTUNITY" WAS NOT INCLUDED IN LETTER AND ACCOMPANYING NOTE OF DECEMBER 20 FROM VARLEY TO PRESIDENT OF UKOOA COMMENTING ON SUGGESTIONS MADE BY UKOOA BECAUSE IDEA HAD ONLY RECENTLY BEEN BROACHED AND, MOREOVER, WAS STILL AT THE TALKING STAGE. HE NOTED THAT, IN ADDITION TO PRESSURE FROM BRITISH INDUSTRY, GOVERNMENT WAS SUBJECT TO POLITICAL PRESSURE, INCLUDING SOME FROM PARLIAMENT, TO GET A MORE SPECIFIC UNDERTAKING FROM INDUSTRY. HE REITERATED IT WAS NOT A MATTER OF CHANGING HMG PROCUREMENT POLICY, BUT RATHER THE EXPRESSION OF IT, IN ORDER, SO HE SAID, TO AVOID PARLIAMENTARY CRITICISM. (A COPY OF VARLEY'S LETTER AND NOTE OF DECEMBER 20 AND UKOOA SUGGESTIONS OF NOVEMBER 21 ARE BEING POUCHED TO EB/ORF/FSE.)

3. INDUSTRY SOURCES REPORT UKOOA REPRESENTATIVES ALL OBJECTED TO VARLEY'S ORAL SUGGESTION. THEY STATED THAT GUIDELINES VOLUNTARILY IN ANY EVENT, AND THAT WHOEVER WAS EXERTING PRESSURE TO EMBODY CONCEPT IN EXISTING LICENSES BY LEGISLATION DID NOT KNOW SALIENT FACTS. EXCEPT FOR TWO OR THREE CASES WHERE DEPARTMENT OF ENERGY OFFSHORE SUPPLY OFFICE (OSO) AND COMPANIES HAD HAD SERIOUS DIFFERENCES OF OPINION, COMPANIES AND OSO HAD BEEN COOPERATING IN A SATISFACTORY MANNER. SHELL AND BP REPS, WHO ACCOMPANIED UKOOA LEADERSHIP IN ORDER TO LEND FURTHER WEIGHT TO VIEWS EXPRESSED BY PRIMARILY CONFIDENTIAL

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US COMPANY OFFICIALS, STRESSED THAT INCLUSION OF LEGISLATIVE PROVISION IN EXISTING LICENSES WOULD ONLY PROTECT INEFFICIENT, UNCOMPETITIVE UK BUSINESS, THAT IT WOULD NOT MAKE THEM BETTER OR MORE EFFICIENT SUPPLIERS, AND THAT OIL COMPANIES HAD ALWAYS OPPOSED SUCH PROPOSALS WHEN MADE BY GOVERNMENT AUTHORITIES IN OTHER COUNTRIES.

4. ONE US COMPANY OFFICIAL STATED THAT HE DID NOT APPRECIATE HAVING HIS BUSINESS DECISION-MAKING POWER ERODED AND THAT HIS COMPANY WOULD HAVE TO REVIEW ITS FUTURE INVESTMENT PLANS SHOULD THE LEGISLATIVE GDS SPIERS

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PROVISION BE ENACTED. HE STATED THAT ONE OF IMPORTANT CRITERIA IN AWARDING OFFSHORE CONTRACTS WAS OIL COMPANIES' JUDGMENT OF ABILITY TO DELIVER ON TIME AND HE QUESTIONED WHETHER CIVIL SERVANTS COULD PERFORM THIS FUNCTION BETTER THAN INDUSTRY.

5. ONE INDUSTRY SOURCE SPECULATED THAT LEGISLATIVE PROVISION MIGHT INCLUDE A DEFINITION OF "FULL AND FAIR OPPORTUNITY" BUT THAT IN ANY EVENT DISCRETIONARY POWERS WOULD PROBABLY HAVE TO BE LEFT TO GOVERNMENT AGENCY SUCH AS OSO. HE BELIEVED THIS WOULD MEAN GOVERNMENT OBTAINING POWERS TO IMPOSE PENALTIES IN SOME WAY UNDER EXISTING LICENSES RATHER THAN MERELY TAKING INTO ACCOUNT OIL COMPANY PROCUREMENT PERFORMANCE WITH REGARD TO AWARDS OF FUTURE LICENSES AS IS CURRENTLY THE CASE.

6. ACCORDING TO OUR SOURCES, VARLEY WILL HAVE TO REACH
A DECISION ON AMENDING NON-FISCAL MEASURES BILL
SOMETIME DURING JANUARY OR FEBRUARY IF IT IS TO GO TO
SUMMER, WHICH IS TARGET DATE VARLEY HAS SET.

7. WITH RESPECT TO OTHER ASPECTS OF NON-FISCAL
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MEASURES PACKAGE, UKOOA OFFICIALS BELIEVE VARLEY AND
DEPARTMENT OF ENERGY OFFICIALS HAVE BEEN REASONABLE
IN CONSIDERING AND ACCEPTING INDUSTRY VIEWS. THEY
POINT OUT, HOWEVER, THAT INCORPORATION OF "FULL AND
FAIR OPPORTUNITY" LEGISLATIVE PROVISION WOULD GIVE
THEM CAUSE FOR MUCH CONCERN.

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